

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6860

BILL NUMBER: SB 488

NOTE PREPARED: Jan 14, 2015

BILL AMENDED:

SUBJECT: Taxation of Special Fuel.

FIRST AUTHOR: Sen. Walker

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill eliminates the Sales Tax on the sale of special fuel. It also increases the Motor Carrier Fuel Surcharge Tax on special fuel from \$0.11 to \$0.14 per gallon. The bill adjusts the allocation of revenue from the Surcharge Tax so that the new revenue is deposited in the State Highway Fund and the Motor Vehicle Highway Account.

Effective Date: July 1, 2015.

Summary of NET State Impact: Table 1 shows the net state impact from the bill:

Table 1. Estimated Net Impact of Increasing Motor Carrier Surcharge Tax on Special Fuel and Eliminating State Sales Tax on Special Fuel that is Assessed Surcharge Tax (in Millions)			
	<i>Increase in Surcharge Revenues</i>	<i>Loss of State Sales Tax Revenues</i>	<i>Net Impact</i>
FY 2016	\$28.1 M	(\$203.8 M)	(\$175.7 M)
FY 2017	\$28.5 M	(\$204.7 M)	(\$176.2 M)
Total for Biennium	\$56.6 M	(\$408.5 M)	(\$351.9 M)

Explanation of State Expenditures:

Explanation of State Revenues: *State Department of Revenue (DOR):* DOR will receive additional funds

from the Motor Carrier Regulation Fund (MCRF). Specifically, the MCRF is estimated to receive an additional \$0.6 M in each of FY 2016 and FY 2017. The MCRF is used by DOR for motor carrier regulation, auditing, and enforcement.

DOR will also implement the changes in the Motor Carrier Fuel Surcharge Tax and Sales Tax, as outlined in the bill. These requirements are within DOR's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Indiana Department of Transportation (INDOT): INDOT will receive additional funds directly from Motor Carrier Fuel Surcharge Tax revenues as well as through the MVHA into the State Highway Fund. The State Highway Fund is estimated to receive an additional \$20.0 M in FY 2016 and an additional \$20.3 M in FY 2017. INDOT will receive \$0.3 M less in both FY 2016 and FY 2017 for the Commuter Rail Service Fund as well as \$0.1 M for FY 2016 and \$0.1 M for FY 2017 for the Industrial Rail Service Fund.

State Sales Tax on Special Fuel: The bill eliminates the assessment of state sales tax on special fuel that is subject to the Motor Carrier Fuel Surcharge Tax. This provision would result in a loss of sales tax revenue estimated to be approximately \$203.8 M in FY 2016 and \$204.7 M in FY 2017. Table 2 shows the potential impact on each fund receiving sales tax revenue.

Table 2. Estimated Impact of Eliminating Sales Tax on Special Fuel (in millions)			
<i>Fund</i>	<i>Distribution</i>	<i>FY 2016</i>	<i>FY 2017</i>
General Fund	98.848%	(\$201.5)	(\$202.3)
Motor Vehicle Highway Account	1.000%	(\$2.0)	(\$2.0)
Commuter Rail Service Fund	0.123%	(\$0.3)	(\$0.3)
Industrial Rail Service Fund	0.029%	(\$0.1)	(\$0.1)
Total	100.000%	(\$203.8)	(\$204.7)

Additional Information: The bill increases the rate of the Motor Carrier Surcharge Tax from \$0.11 per gallon to \$0.14 per gallon. Additionally, the bill changes the distribution of Motor Carrier Fuel Surcharge Tax revenues. Currently, Motor Carrier Fuel Surcharge Tax revenues are divided between the MCRF (9%), the State Highway Fund (45.5%), and the MVHA (45.5%). The bill changes the distribution to 7.5% to the MCRF, 46.25% to the State Highway Fund, and 46.25% to the MVHA.

LSA utilized forecast data from both INDOT and the U.S. Energy Information Administration (EIA). In short, special fuel (diesel or distillate fuel oil) consumption is expected to remain relatively flat in the coming years. Diesel retail prices are expected to remain at roughly \$3.50 per gallon in the next few years, although prices are expected to slowly increase for the next ten years, approaching \$4.00 per gallon by 2025. LSA used the pretax forecasted prices (excluding the \$0.244 per gallon federal diesel tax and the \$0.16 per gallon Indiana Special Fuel Tax) for the sales tax analysis.

The MVHA is funded through a combination of revenue sources including portions of the Gasoline Tax, Special Fuel Tax, Motor Carrier Fuel Use Tax/Surtax, Vehicle Registration, Title Fees, 1% of sales tax revenue, and other smaller sources of revenue. There was \$726.8 M in the MVHA that was available for disbursement in FY 2014.

Of the total available for disbursement in the MVHA, 53% goes to the State Highway Fund (INDOT), and 47% to local units. The local MVHA distribution method is different for counties and cities and towns. For cities and towns, it is entirely population-based. For counties, 5% of the amount available is distributed equally to all counties, 30% is based on county vehicle registration, and 65% is mileage-based. Local MVHA distributions are used by counties, cities, and towns for the expenses of highway and street departments, construction, maintenance, and reconstruction cost of roads, and equipment purchases. Cities and towns may use a portion of their distribution for public safety expenditures.

Explanation of Local Expenditures:

Explanation of Local Revenues: Counties and cities and towns will receive additional funds through the MVHA. Table 3 summarizes these increases in funding:

Table 3. Estimated Increased Distributions to Locals from Increased Revenues into the MVHA (in Millions)			
	<i>Counties</i>	<i>Cities & Towns</i>	<i>Total</i>
FY 2016	\$3.8 M	\$1.8 M	\$5.6 M
FY 2017	\$3.8 M	\$1.8 M	\$5.6 M
Total for Biennium	\$7.6 M	\$3.6 M	\$11.2 M

State Agencies Affected: INDOT.

Local Agencies Affected: Counties, cities, and towns.

Information Sources: INDOT Motor Fuels Forecast Data; U.S. Energy Administration, Energy Prices by Sector and Source, East North Central, Reference Case, <http://www.eia.gov/forecasts/aeo/data.cfm> (Accessed 12/19/14).

Fiscal Analyst: Stephanie Wells, 232-9866; Lauren Tanselle, 232-9586.